Auditor-General of South Africa

Msinga Municipality

Audit report 2017-18

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Msinga Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Msinga Municipality set out on pages x to x, which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget with actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Msinga Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (DoRA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.

4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

7. As disclosed in note 31 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2018. The prior period errors were relating to input VAT claimed while the municipality was acting as an agent, electrification projects incorrectly disclosed as work in progress, employee benefit obligations, employee related costs as well as property, plant and equipment incorrectly disclosed.

Material provision for impairment – trade debtors

8. As disclosed in note 8 to the financial statements, the municipality provided for the impairment of R31,37 million (2016-17: R31,65 million) in respect of trade debtors as the recoverability of these debts were considered doubtful due to poor collection practices and a history of poor debtor payments.

Other matter

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

10. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

11. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

12. In preparing the financial statements, the accounting officer is responsible for assessing the Msinga Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

13. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

14. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

16. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

17. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the "basic services delivery" objective presented in the annual performance report of the municipality for the year ended 30 June 2018.

Objective – To ensure better community facilities

18. The strategic objective approved in the service delivery and budget implementation plan (SDBIP) was, 'to ensure better community facilities'. However, the objective was changed to, 'to ensure proper construction of community facilities' without the necessary approval.

Indicator – Number of kilometres of maintained access roads

19. The planned and reported target did not relate to the realisation of the strategic objective and indicator of the municipality. This is because the achievement of the indicator was measured through the expanded public works programme (EPWP) quarterly compliance reports and the "back to basics" compliance reports, instead of measuring the "actual number of kilometres of access road maintained".

Strategic objective	Indicator	Planned target	Reported target
To ensure proper maintenance of access roads	Number of kilometres of maintained access roads	EPWP quarterly compliance	EPWP quarterly compliance: submission of quarterly reports to DPW
To ensure proper maintenance of access roads	Number of kilometres of maintained access roads	Back to basics compliance	Submitted four reports to Cogta (target met)

Indicator – The number of kilometres of access roads completed

20. The planned targets for the following indicator were not specific in clearly identifying the nature and the required level of performance in the SDBIP.

Indicator description	Planned targets per annual planning document (SDBIP)	Planned targets per APR
The number of kilometres of access roads completed	Scheduled road maintenance	Construction of 6,1 kilometres of access road at Mashunka Access road by 30 June 2018
	Construction of ... kilometres of access road at JD Access road by 30 June 2018.	Construction of 6,1 kilometres of access road at JD Access road by 30 June 2018
	Construction of ... kilometres of access road at Msalvana road by 30 June 2018.	Construction of 5,3 kilometres of access road at Msalvana road by 30 June 2018
	Construction of ... kilometres of access road at Chachacha road by 30 June 2018.	Construction of 4,3 kilometres of access at Chachacha road by 30 June 2018

Indicator – Number of completed crèches or community halls

21. The indicator approved in the SDBIP was relating to "number of completed crèches or community halls". However, the indicator was changed to "number of completed community halls", without the necessary approval. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined method of collection to be used when measuring the actual achievement for the indicator. This was due to a lack of technical indicator descriptions and I was unable to test whether the indicator was well defined by alternative means.

Indicator description	Planned target	Reported achievement	Audited value
Number of completed crèches or community halls	Construction of 25 community halls, by 30 June 2018. Listed targets were: • Construction of 26 community halls • Construction of two houses • Construction of two crèches • Construction of two classrooms • Renovation of one classroom • Purchasing of community material (fencing, sewing machine, tents, chairs)	24 halls constructed (Ward 9 hall not constructed)	24 constructed halls

Indicator – Number of completed projects

22. The indicator was initially approved as "number of completed projects" in the SDBIP. However, it was changed without approval and included in the annual performance report as "construction of infrastructure projects (as seen in the ward plan)". The method of calculation for the achievement of this indicator was not clearly defined. As a result, I was unable to obtain sufficient appropriate audit evidence for the reported achievement. Limitations were placed on the scope of my work as I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement as reported in the annual performance report.

Planned indicator (SDBIP)	Reported indicator (APR)	Planned target (SDBIP)	Reported achievement (APR)	Audited value
Number of completed projects	Construction of infrastructure projects (as seen in the ward plan)	2	02 two room house Constructed 02 Creches constructed 03 classrooms constructed	0

Other matters

23. I draw attention to the matters below.

Achievement of planned targets

24. The annual performance report on pages x to x includes information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 18 to 22 of this report.

Adjustment of material misstatements

25. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of "basic services delivery" objective. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

26. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

27. The material findings on compliance with specific matters in key legislation are as follows:

Financial statements

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of property, plant and equipment; VAT receivables; receivables debt written off, cash and cash equivalents; provision for landfill site; unspent conditional grants; revenue; expenditure and commitments as identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

29. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

30. Reasonable steps were not taken to prevent irregular expenditure of R9,53 million as disclosed in note 36 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority (80,42%) of the irregular expenditure was caused by bids not being advertised on Construction Industry Development Board's website, competitive bids not being followed and quotations not being obtained.

31. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R704 549, as disclosed in note 35 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties as a result of late payments to suppliers and the South African Revenue Service.

32. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, as required by section 65(2)(a) of the MFMA. Goods received notes and payment vouchers were not always signed by the delegated official to confirm receipt of goods or services and validity of payments made to suppliers.

Asset management

33. Municipal funds were invested with Liberty Life, an institution that was not registered in terms of the Banks Act, 1990 (Act No. 94 of 1990), as required by municipal investment regulation 6 (GNR 308 of 1 April 2005).

Strategic planning and performance management

34. The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, and the service delivery targets and performance indicators for each quarter, as required by section 1 of the MFMA.

Procurement and contract management

35. Some quotations and contracts were accepted from bidders who did not submit a declaration as to whether they are employed by the state or connected to any person employed by the state, as required by the municipal supply chain management regulation 13(c) (GNR 868 of 30 May 2005).

36. Some bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(2).

Other information

37. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

38. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

39. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

40. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

41. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

42. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

43. Management did not implement proper records management over the maintenance of documents to ensure that information is easily retrievable. Management was also slow in addressing prior year findings. This was also impacted by vacancies in key management positions. Staff members did not fully understand the requirements of the performance reporting framework, which contributed to the material findings on predetermined objectives. Furthermore, management did not implement effective monitoring controls relating to compliance with legislation.

Auditor - General

Pietermaritzburg

30 November 2018

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

   - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
   - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Msinga Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.